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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY
OF
JULIE F. RIOS
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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Rebuttal Testimony

of

Julie F. Rios

AUTOBIOGRAPHICAL SKETCH

1 My name is Julie F. Rios. I am employed by the U. S. Postal Service as Manager, Expedited
2 and Package Information Services. I am responsible for the development, implementation,
3 and customer support for expedited and package information based services. I have had
4 these responsibilities since October, 1995.

5 I have been employed by the Postal Service since 1972. In field operations, I have been a
6 clerk, carrier, and supervisor. Since joining Postal Headquarters in 1983, I have worked in
7 Strategic Planning, Distribution Operations, Delivery Operations, and Marketing. The
8 primary focus of my work has been developing services and policies that improve the ways
9 the Postal Service meets customer needs.

10 I have a Bachelor of Arts degree in Studio Art from the University of California, Irvine. I
11 completed graduate courses in Business Administration at San Diego State University.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of my testimony is to rebut witness Luciani's (UPS-T-4) alternative proposals
3 for delivery confirmation service. My testimony also emphasizes the Postal Service
4 commitment to offering delivery confirmation service as proposed by the testimonies of
5 witnesses Treworgy (USPS-T-22), Sharkey (USPS-T-33), and Plunkett (USPS-T-40). My
6 testimony addresses the business judgment underlying the proposed delivery confirmation
7 fees and fee structure. Extensive formal and informal market research was conducted to
8 identify the fees and fee structure customers prefer. The formal research was documented
9 in USPS-LR-H-166 and USPS-LR-H-163, which were both filed on July 10, 1997. The
10 informal research derives from my professional responsibilities and consists of discussions
11 with customers held over many years. It is my belief that if witness Luciani's proposed rates
12 and rate structure were implemented, demand for delivery confirmation would be
13 substantially less, thus jeopardizing the significant customer and internal Postal Service
14 benefits that the service and system were designed to provide.

15 II. IMPORTANCE TO THE POSTAL SERVICE OF INFORMATION SYSTEM

16 I cannot overemphasize the importance to the Postal Service of the Mobile Data Collection
17 Device (MDCD) information system in which it has invested and which will enable the Postal
18 Service to offer delivery confirmation service, in addition to many other applications. The
19 MDCCD information system represents a major investment, approved by the Board of
20 Governors on May 6, 1997, of up to \$704.3 million. The system is intended to support
21 several important Postal Service initiatives: the provision of new services such as delivery
22 confirmation; a means of updating and automating the handling of data relating to existing
23 services, particularly special services; and the collection of information needed to accurately
24 monitor, manage, and improve the provision of collection, processing, and delivery services

generally. Details concerning uses of the scanners other than for delivery confirmation are contained in the testimony of witness Lewis (USPS-RT-9).

The specific proposals for delivery confirmation made in this docket are a crucial beginning to the Postal Service's ability to recoup its investment in this system and should not be modified, either as proposed by witness Luciani or in any other significant way. Adoption of witness Luciani's proposals could potentially threaten the Postal Service's ability to generate the expected return on its investment in this system and would be inconsistent with management's goals in meeting customers' needs.

III. IMPORTANCE OF PROPOSED DELIVERY CONFIRMATION FEES AND FEE STRUCTURE

The delivery confirmation fees and fee structure proposed in witness Plunkett's testimony (USPS-T-40) are consistent with the following three principles that the Postal Service has adopted as part of its strategy to meet the needs of expedited and package services customers.

- **Standard Features** - Provide customers with the standard marketplace features.
- **Appropriate Price** - Set a price that meets marketplace demands and expectations, increases the overall value of the services, and covers costs.
- **Reliable and Consistent Service** - Provide the reliable and high quality service that is essential for customers in the marketplace.

In the following three sections, I describe how the proposed delivery confirmation fees and structure are consistent with the adoption of these three principles.

1 A. Standard Features

2 The ready provision of information about delivery status has become a standard feature in
3 delivery companies' overnight and 2-day products. The Postal Service, however, provides
4 this service only for Express Mail. Based on market research and discussions with
5 customers, it is clear that delivery confirmation is a necessary service. In addition to
6 providing information about the delivery status of a package, the supporting infrastructure
7 for delivery confirmation has been set up so that customers can easily access information
8 electronically, another important customer need. Delivery confirmation provides customers
9 with a number of ways to access delivery information. Among these are downloading
10 electronic files from the Postal Service, calling the Postal Service call center through a toll-
11 free number, and querying the status of specific mail items through the Internet.

12 B. Appropriate Price

13 The fee structure for Priority Mail delivery confirmation, as presented in witness Plunkett's
14 testimony (USPS-T-40), is intended to be consistent with the standard features of expedited
15 services, by providing Priority Mail customers with the electronic delivery confirmation
16 service at no additional charge. Retail (manual) delivery confirmation customers would pay
17 a surcharge in addition to Priority Mail postage, thus benefiting from the ability to access
18 delivery information while paying for the greater costs they impose. In contrast, and
19 keeping, perhaps, with the competitive interests of the intervenor on whose behalf he
20 appears, UPS witness Luciani's proposal to impose a per-use fee on users of Priority Mail
21 electronic delivery confirmation service fails to reflect this market reality.

22 Through discussions with bulk customers, the Postal Service learned that they expect
23 delivery confirmation to be included in the base rate for Priority Mail. I expect that many bulk
24 customers will not use delivery confirmation if it requires a surcharge over Priority Mail rates.
25 Indeed, faced with a surcharge, many customers would instead use a non-postal delivery
26 company (which could be exactly why UPS structured its proposals as it did.)

1 Although delivery confirmation is provided to bulk Priority Mail shippers for no additional fee,
2 those mailers who want to take advantage of it must incur the additional costs associated
3 with applying barcodes, manifesting, downloading and uploading information, and
4 integrating information into their systems. Accordingly, while no additional fee is required of
5 bulk Priority Mail shippers using delivery confirmation, they nonetheless incur additional
6 costs not borne by shippers who do not use delivery confirmation. Notwithstanding, all
7 customers will benefit from information collected by delivery confirmation, as discussed in
8 the next section.

9 Boxes provided by the Postal Service at no charge for Priority Mail are comparable to the
10 proposal that electronic delivery confirmation for Priority Mail should not require a separate
11 fee. Both pertain to a feature paid for by all Priority Mail users, although use by customers is
12 by no means universal, and both amount to strategic business decisions regarding the
13 standard features of Priority Mail.

14 Through discussions with ground parcel (Standard B) customers, the Postal Service has
15 learned that even among bulk customers, some customer segments have a need for
16 delivery confirmation while others do not. Until recently, optional delivery confirmation was
17 the standard in the ground parcel delivery market. Because both bulk and non-bulk
18 Standard B customers want to apply delivery confirmation barcodes selectively, the Postal
19 Service proposal that these customers pay only when opting to use the service is consistent
20 with market expectations. In order to meet respective retail and electronic customers'
21 information access needs, the Postal Service proposes two levels of delivery confirmation
22 service for Standard B, each with an appropriate fee.

23 C. Reliable and Consistent Service

24 Consistent and reliable service is the most important service attribute for customers. While
25 delivery confirmation provides customers with delivery information, the information system

1 that supports delivery confirmation is the same system that has been designed to provide
2 the Postal Service with valuable diagnostic and service performance information. The
3 Postal Service will use this information to improve the consistency and reliability of service
4 for all Priority Mail and Standard B mail items. Information derived from the delivery
5 confirmation system will constitute a vast improvement on the limited end-to-end and
6 diagnostic service information now available. The limited information has hampered the
7 Postal Service's ability to provide the level of service currently expected by customers in the
8 expedited delivery market and, increasingly, in the ground parcel market.

9 A portion of the cost of Priority Mail delivery confirmation is incorporated into the base rate
10 for Priority Mail, which is consistent with customer expectations and the fact that customers
11 who choose not to use delivery confirmation will nonetheless benefit from it. Delivery
12 confirmation will provide service and diagnostic information which will help the Postal
13 Service identify and fix service problems. In this regard, all customers who incur any costs
14 associated with delivery confirmation, whether from Priority Mail rates, fees paid by retail
15 customers, or the associated overhead costs borne by electronic users, will realize benefits.

16 IV. POSTAL SERVICE INVESTMENT IN MOBILE DATA COLLECTION DEVICES (MDCD)
17 SYSTEM

18 The Postal Service's investment in the MDCD information system was intended to support a
19 multiplicity of uses. The system enables carriers to use a single device to collect
20 information that serves many purposes. The variety of expected uses are described in the
21 direct testimony of Postal Service witness Treworgy, USPS-T-22, at 2-4.

22 Witness Luciani asserts: "It is clear that the onset of delivery confirmation precipitated the
23 purchase of the scanners." Tr. 26/14533. The justification for investing in the system,
24 however, is stated in USPS-LR-H-247, which consists of the documentation relied upon by
25 the Board of Governors in approving the investment. See also Tr. 3/1226. The very first

1 paragraph of the executive summary identifies three primary justifications for the
2 investment: delivery confirmation services, operational and service performance indicators,
3 and increased value of accountable mail through improved access to information. Further
4 elaboration of the applications other than delivery confirmation are presented in the rebuttal
5 testimony of witness Lewis, USPS-RT-9. Accordingly, witness Luciani's recommendation
6 that all volume variable MDCD system costs be borne by Priority Mail and Standard (B) Mail
7 is not consistent with the facts.

8 V. SUMMARY AND CONCLUSION

9 The structure for delivery confirmation proposed by the Postal Service soundly reflects
10 features that have become marketplace standards, and an appropriate fee structure and
11 fees. The MDCD information system which supports delivery confirmation service will
12 benefit all mailers by providing management better tools for improving the reliability and
13 quality of service. The lack of a separate fee for electronic delivery confirmation for Priority
14 Mail reflects a strategic positioning of Priority Mail in the expedited delivery market that is
15 consistent with customer expectations and marketplace standards. The fee structure
16 proposed by the Postal Service is also consistent with the additional workload expected of
17 electronic delivery confirmation Priority Mail customers, the treatment of Priority Mail boxes
18 in the existing rate structure, and more generally with the expected system-wide service
19 benefits. Given the distinct customer preferences, similar structuring of the delivery
20 confirmation fees for Standard B is not warranted.

21 The Postal Service continually evaluates customer needs as a means of determining how
22 best to improve service. This includes monitoring the costs of technology and determining
23 the best match of features, customer expectations, and rate and fee structure for delivery
24 confirmation. I believe that the rates and fees, and rate and fee structures, proposed in the
25 testimonies of witnesses Plunkett and Sharkey are fair, appropriate, and necessary for
26 providing the features customers desire at the service level they deserve.